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THE CELTIC TIGER

Unleashing keys to economic revival

Editor's Note

The following is an excerpt from a speech delivered in Saint John this week by Dr. Garret FitzGerald, former prime minister of Ireland and Chancellor of the National University. Dr. FitzGerald, whose government initiated many of the reforms that contributed to the revival of Ireland's economy, spoke on "The Celtic Tiger and its lessons for Atlantic Canada" at a dinner celebrating the 10th anniversary of the Atlantic Institute for Market Studies. In the following passages, he lays out the unique conditions and particular policies that helped the Irish transform their nation into the fastest-growing economy in Europe. As readers will see, Ireland ha made the most of its economic advantages by focusing on education, high-tech industry and free trade.

Former Prime Minister of Ireland, Dr. Garret FitzGerald

Whilst Ireland the Celtic Tiger did not start to appear until 1993, its origins lie in a series of wise political decisions taken over a thirty year period between 1956 and 1987 - decisions that reinforced some important and previously under-valued natural or inherited advantages enjoyed by Ireland.

Ireland had a number of natural or inherited advantages, which, however, could not be exploited until Irish products gained access to a wider European market.

These included:

1. The fact that the cultural loss of the disappearance over a period of three centuries of Ireland's indigenous Celtic language was eventually balanced by the economic advantage - especially from the viewpoint of largely monoglot US investors - of becoming the only English-speaking country in Europe, other than Britain itself.
2. Second, Ireland inherited from the 19th and early 20th century period of British rule an independent an incorrupt judiciary and an incorrupt and efficient public service. And although Irish politics in the 1970's and 1980's experienced some political corruption - now being exposed and

eradicated by several judicial tribunals - that phenomenon never affected the process of foreign investment.

3. Although Irish governments change quite frequently, there are no marked ideological differences between parties participating in government, and there exists a clear political consensus on key economic decisions, which are never reversed when governments change.
4. Because of past high emigration and unemployment, public opinion is strongly supportive of and welcomes foreign investment.
5. Irish social policies are closer to those of Britain than to the more burdensome social policies of Continental Europe.

But, as I have said, none of these natural or inherited advantages could have attracted significant foreign investment to a country of 3-4 million. people that was not part of a Europe-wide single market.

Six government policies, adopted between the end of the 1950's and the end of the 1980's, released and greatly enhanced Ireland's natural potential as a site for foreign investment.

Free Trade and EU Membership: The first of these was a decision, taken in the late 1950's to abandon failed protectionist policies that since for the previous quarter of a century had been directed towards the inherently unattainable objective of making this small state self-sufficient - and by 1961 to substitute for that approach a policy of seeking, enthusiastically, membership of the European Community (now the European Union).

However, because of French opposition to enlargement of the Community at that time - directed primarily against Britain - Ireland did not succeed in joining the Community until 1973.

When it finally secured accession to the Community, in marked contrast to Britain, (and also to the third entrant at that time, Denmark), - Ireland, in the government of which I was then Foreign Minister - strongly supported the further development of Europe's economic unification. Thus when in 1985, at the Milan European Council Britain, in the person of Margaret Thatcher, voted against the calling of a conference to create a genuine European single market, on behalf of Ireland I rejected her effort to persuade me to support her in that stance, instead voting with the original Six member states in favour of this important and overdue move.

Ireland's pro-European stance won it many benefits during the early decades of its membership of what is now the European Union, including generous allocations of structural funds through the Union's Budget, and special provisions favouring over other states its fishery and milk production sectors.

Low Corporation Tax: At around the same time as Irish policy shifted in favour of free trade, a radical approach to tax policy on industry was undertaken, starting with a remission of tax on profits from *manufactured exports*, but moving eventually to a 12.5%

Corporation Tax on *all* company profits. Ireland was the only European country in the second half of the 20th century to identify low Corporate Taxation rather than low Personal Taxation as the prime factor in encouraging investment - a policy now being followed by several Eastern European countries which learnt from Irish experience as they prepared for EU membership.

Industrial Development – The IDA: Also around the same time - the late 1950's - there was a dramatic shift away from stupid restraints on foreign investment – since 1932 maximum 49% foreign ownership of manufacturing enterprises – in favour of active encouragement of foreign investment. This led to the establishment of an investment promotion body, the Industrial Development Authority which by the 1970's was recognised as the most effective of such bodies world-wide, both in its skill in identifying key multinationals as potential high-tech investors, and in its persistence in pursuing such targets until almost all key players in the pharmaceutical, computer, software and medical equipment sectors had located plants in Ireland. It was authorised to offer a wide range of promotional aids to foreign investment.

Expansion of Education: In the mid-1960's Ireland recognised that success in attracting foreign investment would require the development of a much more extensive educational system. The existing very limited second- and third-level systems had four potential advantages, which could be built upon:

a. Strong educational motivation of Irish parents, fed up with seeing their emigrating offspring handicapped by lack of education.
b. A relatively well-paid (because heavily unionised) and thus motivated teaching force
c. A broadly-based non-specialised secondary education
d. A university system with high standards

In 1968 the Government increased finance to private schools (historically the predominant element in secondary education) on a scale the enabled 95% of them, in addition to the smaller public sector schools) to abolish fees and offer free education.

Over the following thirty years successive governments expanded second-level education five-fold and higher education six-fold. To-day 83% of children complete secondary education and sit a national school-leaving examination, and 70% continue in education thereafter, over 55% of them in the higher education sector.

A network of Institutes of Technology services industry's needs throughout the country, and the seven universities, (whose drop-out rates are among the lowest in the world), maintain high standards through the use of extern examinees, (75% of them from outside the state) and through quality assurance procedures.

As Chancellor of the National University of Ireland, presiding over the degree standards of four of our seven universities which between them produce 60% of our graduates and 70% of our PhD, I can testify to this personally.

I should perhaps say that the Government, concerned about deepening Ireland's industrial base, has recently introduced generous provision for university research grants - although I have to add that our higher education institutions are unhappy about the scale of their current funding.

Fiscal Rigour: Mishandling of the public finances by a unwise government in the late 1970's, which trebled the national debt in four years and whose policies threatened a borrowing rate of over 21% of GNP, necessitated a tightening of fiscal controls by governments I led between 1981 and 1987. The measures then taken, and continued by a successor government, by 1989 restored financial stability to the point where un the 1990's and since Irish public finances have been in better shape than those of almost any other European state. These actions in the 1980's created a very favourable climate for foreign investment in the 1990's.

The Social Contract: Finally, in 1987 a new Government initiated what became a series of national pay agreements with management and unions, which involved trading cuts in personal taxation for pay moderation throughout the 1990's. Modest pay increases created conditions favourable to foreign industrial investment. The overall burden of taxation in Ireland to-day is then lowest in Europe - lower even than in Britain.

These six key policies provide the explanation for Ireland's dramatic success in attracting large-scale high-tech foreign investment in the 1990's, which was the key to very rapid and sustained economic growth.